

**Memorandum**

Date **DEC 4 2000**
From *for* **Michael Mangano**
June Gibbs Brown
Inspector General

Subject **Review of Outpatient Rehabilitation Services Provided by Americare Physical Therapy and Rehab Services for the Period January 1, 1997 Through December 31, 1997 (A-05-99-00062)**

To

Michael Hash
Acting Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on Wednesday, December 6, 2000, of our final report entitled, "Review of Outpatient Rehabilitation Services Provided by Americare Physical Therapy and Rehab Services for the Period January 1, 1997 Through December 31, 1997." A copy of the report is attached. The objectives of the audit, which is part of a national study we have coordinated with the Health Care Financing Administration, were to determine whether: 1) outpatient physical therapy, occupational therapy, and speech pathology services were provided and billed by Americare Physical Therapy and Rehab Services (Americare) in accordance with Medicare requirements and 2) the costs reported by Americare in its Calendar Year (CY) 1997 cost report, were allowable in accordance with Medicare requirements. We found that Americare, located in Ferndale, Michigan, did not establish or follow existing Medicare procedures for the proper billing of outpatient physical therapy, occupational therapy, and speech pathology services.

Our audit at Americare determined that a significant amount of the outpatient rehabilitation claims submitted by Americare did not meet the Medicare criteria for reimbursement. Specifically, we identified charges for outpatient rehabilitation services that were not reasonable and medically necessary for the beneficiary's condition or, in one case, were inadequately documented. Based on a statistical projection, we estimate that at least \$190,399 in outpatient rehabilitation payments received by Americare did not meet Medicare criteria for reimbursement. We also identified \$313,220 in unallowable costs claimed on Americare's CY 1997 Medicare cost report for outpatient rehabilitation services. The unallowable costs were not reasonable and necessary, adequately supported, or in accordance with Medicare reporting principles.

We recommended that Americare work with its fiscal intermediary (FI) to refund the unallowable Medicare program reimbursements received for improper outpatient rehabilitation services and unallowable costs on its CY 1997 Medicare cost report. In addition, we will provide the results of our audit to the FI so that it can apply the appropriate adjustments of \$190,399 in outpatient rehabilitation payments and \$313,220 in unallowable costs to Americare's CY 1997 Medicare cost report. We also recommended that Americare

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strengthen its controls and procedures to ensure that charges for outpatient physical therapy, occupational therapy, and speech pathology services are reasonable, necessary, and properly documented in accordance with Medicare regulations and guidelines and that it develop procedures to exclude unallowable costs from its Medicare cost reports.

Americare did not prepare written comments to our draft report. At the exit conference, Americare agreed with and has already implemented our recommendation regarding procedures and controls to assure future cost report compliance.

Any questions or comments concerning this report may be addressed to George M. Rceb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104 or Paul Swanson, Regional Inspector General for Audit Services, Region V, at (312) 353-2621.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OUTPATIENT
REHABILITATION SERVICES
PROVIDED BY AMERICARE PHYSICAL
THERAPY AND REHAB SERVICES FOR
THE PERIOD JANUARY 1, 1997
THROUGH DECEMBER 31, 1997**



**JUNE GIBBS BROWN
Inspector General**

**NOVEMBER 2000
A-05-99-00062**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region V
233 North Michigan Avenue
Chicago, IL 60601

CIN A-05-99-00062

Mr. Nasir Khan
President
Americare Physical Therapy and Rehab Services
641 W. Nine Mile Road, Suite D
Ferndale, Michigan 48220

Dear Mr. Khan:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, "Review of Outpatient Rehabilitation Services Provided by Americare Physical Therapy and Rehab Services for the Period January 1, 1997 Through December 31, 1997." A copy of this report will be forwarded to the action official noted below for her review and any action necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Page 2 - Mr. Nasir Khan

To facilitate identification, please refer to Common Identification Number A-05-99-00062 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Paul Swanson". The signature is written in a cursive, flowing style.

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mrs. Dorothy Burk Collins
Regional Administrator
Health Care Financing Administration
233 N. Michigan Ave.
Suite 600
Chicago, Illinois 60601

EXECUTIVE SUMMARY

Background

In 1997, the Medicare program reimbursed outpatient rehabilitation facilities (ORF) for the reasonable costs associated with providing outpatient rehabilitation services. The ORFs provide outpatient physical therapy, occupational therapy, and speech pathology services. Medicare requirements provide that the patient, to be eligible for coverage, must be under the care of a physician and the services must be rendered in accordance with an established treatment plan. These guidelines stipulate that the services must be reasonable and necessary to treat an individual's illness or injury. There must be an expectation that the patient's condition will improve significantly in a reasonable and generally predictable period of time, and the services must relate directly to the treatment goals. In addition, the services must be at a level of complexity and sophistication that they can be safely and effectively rendered only by (or under the supervision of) a skilled therapist.

Medicare further requires that payment to providers reflect reasonable costs and that services are supported by medical records. These records must contain sufficient documentation to justify the treatment provided. Claims are submitted for services rendered and are reimbursed on an interim basis based on submitted charges. At year end, the ORF submits a cost report to the Medicare fiscal intermediary (FI) for final settlement.

Objectives

The objectives of this review were to determine whether: (1) outpatient physical therapy, occupational therapy, and speech pathology services were provided and billed by Americare Physical Therapy and Rehab Services (Americare) in accordance with Medicare requirements and (2) the costs reported by Americare in its Calendar Year (CY) 1997 cost report, were allowable in accordance with Medicare requirements.

Summary of Findings

In CY 1997, Americare received payments of \$667,576 for outpatient physical therapy, occupational therapy, and speech pathology services. To determine whether controls were in place to ensure compliance with Medicare regulations and guidelines, we reviewed the medical and billing records for 100 statistically selected claims with payments totaling \$102,376. Our analysis showed that \$41,867 of these payments did not meet the Medicare criteria for reimbursement. These unallowable payments were for services which were not reasonable and necessary for the patient's condition or were not supported by medical record documentation. We extrapolated the sample results to the population of claims from Americare during CY 1997 and estimated that Americare overstated its allowable reimbursements from Medicare by \$190,399.

We also found that Americare did not establish or follow existing Medicare procedures for the proper billing of outpatient physical therapy, occupational therapy, and speech pathology services.

Medicare also requires that costs claimed to the program be reasonable, allowable, allocable, and related to patient care. We reviewed the \$1,134,922 in costs reported by Americare on its CY 1997 Medicare cost report and found that \$313,220 in costs were ineligible for reimbursement under the Medicare program. These unallowable costs included unreasonable owner's compensation, contracted costs for which there was not sufficient documentation, and miscellaneous unallowable expenses.

Recommendations

We recommended that Americare strengthen its procedures to ensure that claims for outpatient physical therapy, occupational therapy, and speech pathology services are reasonable, necessary, and properly documented in accordance with Medicare regulations and guidelines and that nonreimbursable costs are eliminated from its Medicare cost reports.

In addition, we will provide the results of our review to the Medicare FI, so that it can appropriately adjust Americare's CY 1997 Medicare cost report for overstated reimbursements of \$190,399 and unallowable and unreimbursable costs of \$313,220.

Provider's Response

Americare did not provide written comments to our draft report. At the exit conference, Americare agreed with and has already implemented our recommendation regarding procedures and controls to assure future cost report compliance.

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INTRODUCTION

BACKGROUND

The Medicare program established by Title XVIII of the Social Security Act (Act), provides health insurance coverage to people aged 65 and over, the disabled, and people with end stage renal disease. The Medicare program is administered by the Health Care Financing Administration (HCFA).

Section 1861 (p) of the Act defines outpatient physical therapy services as "...physical therapy services furnished by a provider of services, a clinic, rehabilitation agency, or a public health agency...to an individual as an outpatient." A rehabilitation agency is defined in section 120 of the HCFA Outpatient Physical Therapy and Comprehensive Outpatient Rehabilitation Facility Manual (Manual) as a provider of outpatient physical therapy, occupational therapy, and/or speech pathology services. In recent years, the term "rehabilitation agency" has become synonymous with "outpatient rehabilitation facility" or ORF in the Medicare provider community.

Section 1861 of the Act also includes a provision that the outpatient therapy services may be rendered at a facility (such as an ORF), a physical therapist's office, or an individual's home. Although there is no requirement that services be rendered on the ORF premises, providers must maintain a centralized location with adequate space, equipment, and staff to treat patients.

Medicare covers outpatient physical therapy, occupational therapy, and speech pathology services rendered in an ORF setting. The conditions for coverage of ORF services are outlined in sections 270 through 273 of the Manual. These guidelines state that the services must be reasonable and necessary to treat an individual's illness or injury. There must be an expectation that the patient's condition will improve significantly in a reasonable and generally predictable period of time, and the services must relate directly to the treatment goals. In addition, the services must be at a level of complexity and sophistication that they can be safely and effectively rendered only by (or under the supervision of) a skilled therapist.

Medicare requires the ORF to demonstrate that the services were required for the patient, furnished under a treatment plan that has been reviewed by a physician, and furnished while the patient was under the continuous care of a physician. A patient receiving ORF services must be seen by a physician every 30 days, and documentation of the visit must be maintained in the medical record.

At year end, the ORF submits a cost report to the Medicare FI for final settlement. For costs claimed on an ORF's cost report, Medicare requirements stipulate that:

- ▶ ORFs be reimbursed on the basis of reasonable cost, defined as all necessary, and proper costs incurred in the delivery of services to Medicare beneficiaries. To be reasonable, the costs must be related to patient care or the operation of patient care facilities and should be common and accepted occurrences in the field of the provider's activity. [42 CFR 413.9]
- ▶ a provider of services adhere to prudent buyer principles and minimize expenses through cost-conscious management. [Medicare Intermediary Manual section 2103]
- ▶ cost-reimbursed providers must maintain sufficient documentation to support the costs payable under the Medicare program. This data must be verifiable. [42 CFR 413.20]

The Americare is a licensed outpatient rehabilitation facility, located in Ferndale, Michigan. The Americare contracted with consultants to provide physical, occupational, and speech pathology therapy services, primarily to Medicare residents of nursing homes located in the greater Detroit area.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to determine whether: (1) outpatient physical therapy, occupational therapy, and speech pathology services were provided and billed by Americare in accordance with Medicare requirements and (2) the costs, reported by Americare in its CY 1997 cost report, were allowable in accordance with Medicare requirements.

To accomplish our objectives, we:

- ▶ reviewed criteria related to outpatient physical therapy, occupational therapy, and speech pathology services.
- ▶ met with Americare administrative personnel to obtain an understanding of how the medical records were maintained and how therapy visits were documented and billed.
- ▶ used the Provider Statistical and Reimbursement data from United Government Services (UGS), the Medicare FI, to identify the universe of 598 paid claims valued at \$667,576.
- ▶ employed a simple random sample approach to select a statistical sample of 100 claims for outpatient physical therapy, occupational therapy, and speech pathology services.

- ▶ performed detailed audit testing on the billing and medical records for the claims selected in the sample.
- ▶ utilized medical review staff from the FI to analyze the medical records supporting the selected claims.
- ▶ used a variables appraisal program to estimate the dollar impact of improper reimbursement in the total population.
- ▶ reviewed documentation supporting the appropriateness of \$1,134,922 in costs on Americare's CY 1997 Medicare cost report.

Our audit was completed in accordance with generally accepted government auditing standards. We also conducted a limited review of Americare's internal controls, focusing on procedures for submitting Medicare costs on the cost reports. The objectives of our review did not require an assessment of the entire internal control structure at Americare.

The field work was performed at Americare's office in Ferndale, Michigan; at a consultant's office (Healthcare Reimbursement and Management, Inc.), in Ann Arbor, Michigan; and at our Lansing, Michigan field office.

FINDINGS AND RECOMMENDATIONS

Our audit showed that services included on 36 percent of the sampled claims were not reasonable and necessary for the beneficiary's condition or, in one case, were inadequately documented. We estimate that Americare was paid, at least \$190,399, for services that did not meet the Medicare requirements. In addition, Americare's CY 1997 cost report contained \$313,220 in costs that were not reasonable and necessary, not adequately supported, or not in compliance with Medicare reporting principles.

Provider Rehabilitation Services - Medical Issues

For physical therapy, occupational therapy, and speech pathology services to be eligible for Medicare coverage, an ORF must ensure that the patient is under the care of a physician and that the services are rendered in accordance with an established treatment plan. Conditions for Medicare coverage of ORF services are outlined in sections 270 through 272 of the HCFA Outpatient Manual. These guidelines state that the services must be reasonable and necessary to treat an individual's illness or injury, the patient's condition be expected to improve significantly in a reasonable and generally predictable period of time, the services be related directly to the treatment goals, and at a level of complexity and sophistication of service that can only be safely and effectively rendered by (or under the supervision of) a skilled therapist.

Medicare guidelines require the ORF to demonstrate that the services were required by the patient, furnished under a treatment plan that has been reviewed by a physician, and furnished while the patient was under the continuous care of a physician. A patient receiving ORF services must be seen by a physician every thirty days, and documentation of the visit must be maintained in the medical record.

Generally, maintenance therapy is not covered in an ORF setting because the skills of a qualified therapist are not required. In addition, Medicare does not reimburse for services related to the overall good and welfare of patients, such as general fitness exercises or diversionary activities.

A medical review of the sampled outpatient therapy claims noted that services included on 36 of the claims were paid in error and should be denied. The medical review team fully denied the services included on 19 of the claims and partially denied the services included on 17 of the claims, resulting in a disallowance of \$41,867.

Services Not Reasonable or Medically Necessary

The medical review showed that, for 35 claims, Americare billed for services that were not reasonable or medically necessary for the beneficiary's condition. Specifically, the medical review revealed that Americare was reimbursed for services although the patients:

- had no potential for improvement;
- did not require the specialized care of a skilled therapist; and/or
- chance of making progress in a reasonable period of time would be difficult.

Documentation Not Compliant with Medicare Requirements

For one claim, the medical record documentation did not support the services billed. Medical reviewers determined that the records were missing key items to substantiate the provision of the services. Medicare requirements for ORF services require the provider to maintain sufficient medical record documentation to support the services billed.

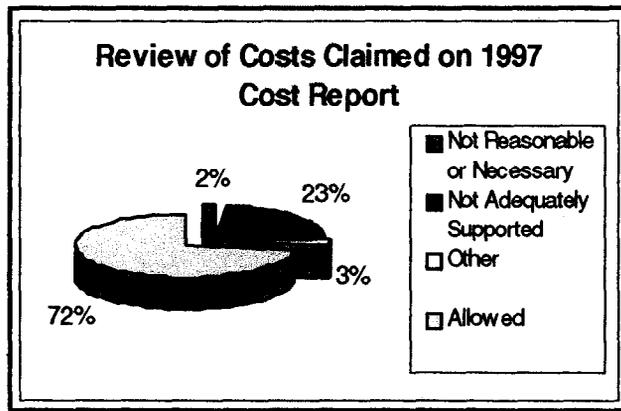
As a result, we estimate that the provider received at least \$190,399 in overpayments for CY 1997 therapy service claims.

Provider Cost Report Issues

The provider submitted Medicare costs totaling \$1,134,922 for CY 1997, which included \$313,220 that were not reasonable and necessary, adequately supported, or in accordance with Medicare reporting principles. These costs (see APPENDIX B) were not allocable or reimbursable under Medicare requirements.

In 1997, ORFs were reimbursed on the basis of reasonable cost, which 42 CFR 413.9, defined as including all necessary and proper costs incurred in the delivery of services to Medicare beneficiaries. To be reasonable, the costs must be related to patient care or the operation of patient care facilities and for common and accepted occurrences in the field of the provider's activity. Per section 2130 of the Medicare Intermediary Manual, a provider of services is expected to adhere to prudent buyer principles and minimize expenses through cost-conscious management. Requirements for financial records are addressed in 42 CFR 413.20, which states that cost-reimbursed providers must maintain sufficient financial documentation to support the costs payable under the Medicare program. This data must be verifiable.

Our review of the provider's cost report and accounting records noted the following.



Costs Not Reasonable or Necessary

Our review of owners' compensation determined that the salary of the owner/Chief Executive Officer exceeded reasonable compensation levels by \$20,012. After completing HCFA's point system survey for owner's compensation, a reasonable salary was determined to be \$75,988. The amount in excess of the HCFA standard was considered unreasonable.

Costs Not Adequately Supported

A total of \$255,728 was submitted for cost items that were not adequately supported by financial documentation. Americare did not have sufficient documentation to support costs claimed for contracted therapy services, accruals, consulting services, or legal and accounting fees. Americare claimed \$164,571 for insufficiently documented contracted services (\$102,578 for physical therapy, \$58,972 for occupational therapy, and \$3,021 for speech therapy services). Americare did not produce sufficiently detailed invoices or other source documentation to adequately substantiate the incurrence of these costs. Costs in the amount of \$42,561 were claimed for an accrual of medical records integrity charges that could not be fully substantiated. Americare claimed \$23,178 for consulting services, and \$19,940 for legal and accounting fees and accruals that were not substantiated. An additional amount of \$5,478 was claimed for miscellaneous expenses (\$388 for undocumented office expenses and \$5,090 in unsupported

medical supplies expenses) that were not adequately supported by the providers accounting documentation.

Costs Not in Compliance with Medicare Reporting Principles

Our review also identified miscellaneous unallowable items for patient cab rides to the facility, a car alarm for the owner's personal car, and duplicate accrual claims for 1996 office salaries totaling \$37,480. These expense items were not reimbursable according to Medicare requirements.

RECOMMENDATIONS

We recommended that Americare work with its FI to refund the unallowable Medicare program reimbursements received for improper outpatient rehabilitation services and unallowable costs on its CY 1997 Medicare cost report.

In addition, we will provide the results of our audit to the FI so that it can apply the appropriate adjustments of \$190,399 in outpatient rehabilitation payments and \$313,220 in unallowable costs to Americare's CY 1997 Medicare cost report.

We also recommended that Americare strengthen its controls and procedures to ensure that charges for outpatient physical therapy, occupational therapy, and speech pathology services are reasonable, necessary, and properly documented in accordance with Medicare regulations and guidelines and that it develop procedures to exclude unallowable costs from its Medicare cost reports.

Americare did not prepare written comments to our draft report. At the exit conference, Americare agreed with and has already implemented our recommendation regarding procedures and controls to assure future cost report compliance.

APPENDICES

STATISTICAL SAMPLING INFORMATION

<u>POPULATION</u>	<u>SAMPLE</u>	<u>ERRORS</u>
Claims: 598	Claims: 100	Claims: 36
Dollars: \$667,576	Dollars: \$102,376	Dollars: \$41,867

PROJECTION OF SAMPLE RESULTS
Precision at the 90 Percent Confidence Level

Point Estimate: \$250,367

Lower Limit: \$190,399

Upper Limit: \$310,336

APPENDIX B**COST REPORT ADJUSTMENTS**

COSTS NOT REASONABLE OR NECESSARY			\$ 20,012
Owners Compensation		\$20,012	
COSTS NOT ADEQUATELY SUPPORTED			\$255,728
Contracted Therapy Services		\$164,571	
Accrual of Medical Records Integrity Charges		\$42,561	
Consulting Services		\$23,178	
Legal and Accounting Fees		\$19,940	
Miscellaneous Expenses		\$5,478	
COSTS NOT IN COMPLIANCE WITH MEDICARE REPORTING PRINCIPLES			\$ 37,480
Patient transportation, Owner's personal costs, Duplicate accruals, misc.		\$37,480	
TOTAL ADJUSTMENTS			\$313,220